

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6950

BILL NUMBER: SB 304

NOTE PREPARED: Jan 10, 2007

BILL AMENDED:

SUBJECT: Property tax circuit breaker.

FIRST AUTHOR: Sen. Mrvan

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: This bill limits the 2% circuit breaker property tax credit to property taxes imposed on homesteads. It requires the county fiscal body to adopt an ordinance authorizing the 2% homestead circuit breaker property tax credit before the credit applies in a county. The bill indicates that any reduction in collections due to the property tax credit does not relieve a taxing unit from the requirement of fully funding the payment of debt service or lease rentals.

The bill also specifies that the 2% homestead circuit breaker property tax credit applies in Lake County in 2007 to the same extent as if the county fiscal body had adopted an ordinance before July 1, 2006. This bill makes other related changes.

Effective Date: January 1, 2007 (retroactive).

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: NOTE: *The following analysis of the proposed property tax credit and of the current 2% property tax credit are subject to change as local assessors finalize trending/equalization adjustments and as actual normal assessed value (AV) and levy growth rates become known. The actual credits will differ from these estimates.*

Under current law counties must provide credits against the property tax liability of certain classes of property if the net property tax on the property, after all other credits are applied, exceeds 2% of the property's gross assessed value. The credit equals the amount of tax that exceeds the 2% threshold. Counties are not permitted to borrow money to fund the credit. The credits reduce revenues for local civil taxing units and school corporations in affected counties. The credit applies as follows:

1. The credit is mandatory in Lake County in 2007. It applies to all residential property in 2007 unless the Lake County Council adopts an ordinance by December 31, 2006, limiting the credit to only homesteads.
2. The credit is mandatory in all counties for taxes payable in 2008 and in 2009. The credit applies to all forms of residential property – homesteads, apartment complexes, and other residential rental property – in all counties.
3. Beginning with taxes payable in 2010, the credit applies to all real and personal property in all counties.

Under this bill, the credit would apply only to homesteads and it would be optional in each county beginning with taxes payable in 2008. The credit would be mandatory for Lake County in 2007, but it would apply only to homesteads.

If, under this proposal, all counties adopt the credit for homesteads beginning in 2008, the total cost would be estimated at \$19 M in CY 2007, \$21 M in CY 2008, \$24 M in CY 2009, and \$26 M in CY 2010. The credit would affect an estimated 365 taxing units in 37 counties when fully implemented in 2010. There are a total of about 2,400 taxing units in the 92 counties. The actual fiscal impact depends on local action.

By comparison, the cost of the current 2% credit is estimated at \$122 M in CY 2008 and CY 2009, and \$426 M in CY 2010. The current credit will affect an estimated 1,155 taxing units in 74 counties when fully implemented in 2010.

Both the current law and proposed credits reduce local property tax revenue. The credits under this bill would result in a smaller revenue reduction than the credits under current law. This revenue increase is estimated at \$100 M to \$122 M in both CY 2008 and CY 2009, and \$400 M to \$426 M in CY 2010, depending on the number of counties that adopt the credit under this proposal. There would be no change in Lake County in CY 2007 if the county has opted under current law to allow the credits for homesteads only. However, if Lake County did not limit the credits in CY 2007, then revenue for Lake County taxing units would increase by \$52 M over current law.

The bill would also require taxing units to fully fund the payment of debt service and lease rentals regardless of and revenue reduction due to the credits.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: All local civil taxing units and school corporations.

Information Sources: LSA parcel-level property tax database; Local Government Database.

Fiscal Analyst: Bob Sigalow, 317-232-9859.